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9 November 1984

NOTE FOR: Director of Central Intelligence
FROM: David B. Low
NIO/AL
SUBJECT: Attached Letter to J. William
Middendorf, II, Department of
State

I received this letter, dated 16 October,
for action on 8 November. The Ambassador
requests the DCI's views prior to the next
OAS General Assembly, which begins Monday,
November 12 in Brasilia. Thus, to be timely
the attached should be signed and hand
delivered today.

David B. Low
David B. Low



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Washington, D. C. 20505

9 NOV 1984

The Honorable J. William Middendorf, II
Permanent Representative to Organization
of American States
U.S. Department of State
Washington, D. C. 20520

Dear Bill,

I read your letter of October 16, 1984 and the attached address on the private sector's role in Latin American development with great interest. As you know, I concur strongly with the thrust of your comments.

I also have concluded that we have a "window of opportunity" at this moment in history. And I, too, see a new willingness on the part of many countries to face up to these issues. I have commissioned a study which I expect to be completed during November on this very topic. In this study we intend to develop the idea that there is good reason to believe that in Third World countries the socialist model is increasingly being perceived as having failed to generate real economic growth. There does indeed appear to be a shift from the ideologically-inspired policies of the post-colonial era to much more practical approaches.

The process of decolonization played into the hands of the socialist countries. Many leaders of newly established Third World countries perceived that the poverty of the Third World was either a legacy of the colonial period or part of a continuing Western attempt to exploit the Third World through the capitalist international trading system. Moscow exploited this feeling by offering an alternative which featured centralized control and state domination, which was seen by LDC leaders as essential. At the same time, much of Western developmental aid tended to reinforce the value of central planning and the development of parastatals.

However, during the past decade the circumstances changed. The world encountered tough economic times: two oil price hikes, two recessions, higher interest rates, and massive debt. At the same time, other trends began to develop:

- A number of LDCs began to recognize that, in the context of such external economic influences, LDC developmental policies, with the emphasis on central planning, reduced incentives for the farmer, etc., were not working.
- Many LDCs began to realize that they had less global, collective economic power than they perceived in the 1970s.
- Expectations that the Soviets could provide economic alternatives were reduced. Such countries as Cuba have provided a dismal example of economic progress under Moscow's tutelage. In addition, many LDCs have come to realize that Communist countries provide only a meager amount of economic aid and have been unable to provide significant alternative markets for LDC goods.
- Prospects for sizeable new amounts of Western foreign assistance have dimmed, with aid increasingly going for security assistance, humanitarian purposes and debt repayment.
- Continuing economic advances of many Far East LDCs have demonstrated that efficient domestic policies can overcome adverse external economic circumstances.

Accordingly, we now see LDC governments increasingly willing to contemplate and experiment with market-oriented approaches. Within certain constraints, such as the need to maintain central government political control, the private sector is being increasingly allowed to operate independently. There are many examples of this, such as the one you noted in Peru, but the most significant may be the PRC.

This changing climate presents significant economic opportunities for the US:

- to increase the promotion and development of small-scale enterprises within LDCs and the acceptance of and adaptation to new technologies, to enlarge the flow of foreign direct investment, and to help state enterprises to become more efficient and find ways to relinquish some functions to the private sector; and
- to strengthen its links with LDCs based upon a growing mutuality of economic interest.

These forces also have security implications. They should strengthen the West's position in relation to that of the Soviet Union in LDCs. Soviet domestic economic and foreign financial constraints over the next ten years will make Moscow even less able to compete in non-military sectors. Also, US security interests will often coincide with opportunities for economic support, and security assistance can reinforce the willingness of an LDC to make a change.

Personally, I am not convinced that the mechanisms necessary to take advantage of these opportunities presently exist within the US Government. Rather, I feel that some sort of legislative change will be required to create the appropriate mechanisms to accomplish this critical task.

Needless to say, when we have completed our study we will share it with you.

Sincerely,

WJ Casey

William J. Casey
Director of Central Intelligence

SUBJECT: Letter to The Honorable J. William Middendorff II, Permanent
Representative to US Mission to the Organization of
American States from DCI

NIO/AL/DL:rr
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9 November 1984

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United States Department of State

*United States Permanent Mission to the
Organization of American States**Washington, D. C. 20520*

October 16, 1984

Executive Registry

84 - 9579

Dear Bill:

The economies of most Latin American countries have been in a freefall. Despite some modest recent improvements in their exports, primarily to the U.S. and helped along by our Reagan-led recovery, as well as some indications of a very modest resumption of growth, full-recovery cannot be expected for some time. Their debts are potentially overpowering and the prospects for early repayment without major capital infusions are small. Furthermore, with these economies still being in the doldrums, and with the people becoming restless, this region, so strategically important to the United States, remains a potential breeding ground for leftist adventurism.

All need not be lost. Their desperate capital needs can be met -- not by more borrowing -- but rather by major infusions of foreign direct investments, by reviving their relatively dormant private sectors and by bringing into better balance the private sector-public sector ratios now highly tilted toward generally inefficient state enterprises. A fair number of the countries owing the largest amounts of the \$350 billions have nearly 75% of their Industrial production owned by the government, with the energetic private sector being pushed aside. Excessive printing of money, capital flight and, in some cases, corruption have been the result. As Senator Manuel Ulloa of Peru has said, "Is it any wonder no one wants to invest in our countries where we don't want to ourselves?" Just after World War II, half of all U.S. investments overseas were in Latin America - now only 5% of new investments, often bringing with them needed technology and management skills, are going there. Much of this, however, will require basic structural changes in their economic approach, and as I travel in the region, I see a new willingness on the part of many countries to face up to these issues.

Frankly, what is needed is a healthy dose of Reaganomics - it works!

During the week of August 27-31, we had our Annual Meeting of the Inter-American Economic and Social Council of the OAS in Santiago, Chile. One of the matters we discussed was how to promote a structural change in Latin America to bring about a greater awareness of the political-economic benefits of a vital private sector and a free market approach to the region's economic problems. I strongly feel that a measure of success

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in promoting this structural change could be the greatest legacy leaders like you and those of us serving in positions which influence economic thought can leave to future generations. In our Hemisphere at the present time, we have a "window" of opportunity to stem the tide of socialist-statist philosophy and we must take every opportunity to speak out against statist "non-solutions" to the region's economic problems. These issues directly effect our own long term survival in this hemisphere. As Ben Franklin said, "We must all hang together or we will surely all hang separately."

In the enclosed speech to the Chilean-American Chamber of Commerce, I have directly confronted the sacred cows of the Calvo Doctrine, Andean Pact Decision 24, and certain development policies earlier inspired by Raul Prebisch, who himself has modified many of his views, as Keynes did later in his life. In this effort, the work of such researchers as Dr. Hernando de Soto of Peru has provided us not only with valuable intellectual ammunition, but also represents the spadework in preparing the ground for a philosophical re-orientation in development economics in Latin America.

President Reagan addressed this whole issue in this speech to the World Bank last month, calling for greater infusions of foreign direct investments into a more hospitable investment climate south of the border.

I hope that you, as a friend of the OAS, will find these remarks of interest, and we here at this Mission would very much appreciate your input before we move to the next phase in this battle in mid-November at our OAS General Assembly in Brasilia. We need your help and counsel on this.

Sincerely,

Bill

J. William Middendorf, II
Ambassador
Permanent Representative

Enclosure: As stated

The Honorable
William Casey,
Director of CIA.

Bill

*Still pursuing the Reaganomics
Theme for the Hemisphere
So depressed and in need
of Capital.
Bill*